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Chain Store Age EXECUTIVE

with Shopping Center Age

The newsmagazine for retail operations

March 1985

SPECS '85 Schedule

DIVERSIFICATION:

Retailers reach out

TWENTY DOLLARS A YEAR (USA)

Chain Store Age EXECUTIVE Volume 61, No. 3/March 1985

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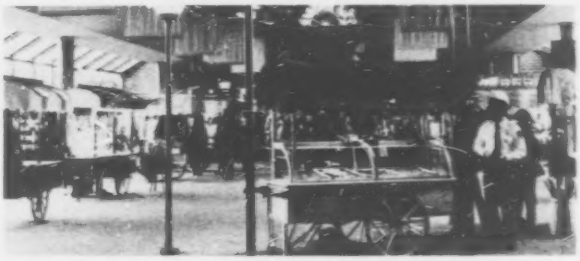

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Bloomingdale's national expansion is viewed as a sure success, with entries in Washington, Boston, Philadelphia, Dallas and Miami.

Retailing's Grande Dame: Cloaked in new strategies

Federated Department Stores is geared to increasing market share and poised to retake its position as an innovator

Long considered the granddaddy of the industry, Federated Department Stores this year played the part of the stepchild on Wall Street. "Avoid the stock at this time," one analyst advised his clients this past summer. Two consecutive quarters of earnings declines had already been reported; a third was on its way.

A short time later, a more optimistic stock-watcher urged investment, yet characterized Federated's performance of the past decade as "erratic" and "very disappointing." For the nine months ended Oct. 27, 1984, earnings dipped 22.8% to $127.8 million, or $2.58 a share fully diluted, on a 9.4% sales increase to $2.27 billion. For the fiscal year ended in January, sales rose 10% to $7.86 billion. Earnings for the fiscal year weren't available at presstime.

Despite these ups and downs in recent years, Federated Department Stores has retained its image among its peers as the *Grande Dame*.

"They are still stars. They have a strength that's inner; it's in their fiber. It's been in-bred for over 60 years." These comments, from a competitor, denote the respect Federated commands. It is the respect one gives to elders, as well as the respect reserved for something formidable—something potentially dangerous.

Perhaps that latter description more aptly suits Federated at this time. In recent years, its reputation for "firsts" diminished in many people's eyes as it appeared to ignore changing demographics and emerging forms of retailing—many of these coming head-to-head against the company's primary business, department stores. Now, however, Federated is armed with a new set of strategies geared to increasing market share and is poised to retake its position as an innovator.

In place now at Federated are strategic changes that have buoyed opinions of competitors and on Wall Street: a commitment to capturing greater market share through more aggressive promotions and stocking deeper inventories; renovation of key units in major markets; department store expansion into high-growth areas in the Sunbelt; the development and nurturing of new divisions; emerging management stability; the successful repositioning and expansion of Ralphs supermarkets, and the disposal or merger of unprofitable operations for greater efficiencies.

The long-term result (three to five years), says analysts, will be growth outpacing that of the retail industry itself. Short-term results are a bit more tenuous, but the consensus is optimistic: "I think earnings in the near-term will be a function of whenever they can extricate themselves from their overinventory position as well as see a little bit of improvement in retail sales against a depressed basis," states Jeffrey Edelman, first vp at Dean Witter Reynolds.

"Beyond that," he continues, "I would expect these changes to have an effect. But most turn situations take five years and I'm not sure this is going to happen much sooner."

Stacy Ruchlamer, an analyst with Shearson Lehman/American Express, is expecting a "big bounce back in 1985, against a base in 1984 that was pretty depressed." Ruchlamer anticipates Federated's sales growth this year to be around 8.5% against total industry growth of 7%.

The company began canceling orders in November, she says, and should have its inventory "more in line" by the end of April. That would put it 12% to 15% up over last year's.

(Norman Matthews, a Federated vice chairman, refused to comment.)

Federated's decision to embark on its ambitious strategic plan is reportedly an about-face from its previous stance. Analysts and competitors alike cite the company for a recent history of smugness and resting on its laurels.

At the same time, they say, Federated's dominance in major markets made it a likely target for direct competition from other retailers. "Over the last few years, everybody and his brother has pinpointed Federated as the major competition in their marketplace and targeted their events and their direction to take market share from the leader," notes one observer. An inevitable market share erosion followed.

Ruchlamer uses Rich's in Atlanta as an example: "They were an old-line store with no major threats. Then Davison's adopted value pricing and improved its visual presentation. And suddenly they were exciting stores. They had new fashions; the stores had theater."

The growing Atlanta population brought with it consumers who had no existing store loyalty, she states. And they went to Davison's. In 1977, Ruchlamer estimates Rich's held a market share of approximately 29%, while Davison's controlled 11%. By the end of 1982, she estimates Rich's had dropped to 25.9% and Davison's was up to 13%.

Under the leadership of Allen Questrom, Rich's spent 1983 re-establishing its presence, she says, and is now one of Federated's star performers, having double digit sales growth this past year. (Matthews refused to comment on Rich's 1984 performance, besides saying, "We are very pleased.")

Ruchlamer speculates that Rich's was, in a sense, a testing ground for Federated's new strategy. While Matthews said only, "You learn something from every division. And when a division is particularly successful, you learn even more."

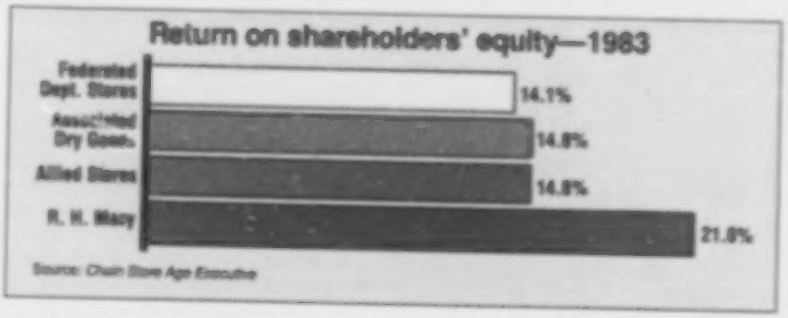
Ironically, Federated seems to be learning as much, if not more, from R. H. Macy, as it is from its own divisions. Time and again observers make reference to Federated as "imitating" or "emulating" Macy's inventory strategy—or, in one case, Macy's "former" inventory strategy.

Says one such observer: "They [Federated] have embarked on a strategy to be much more aggressive and to regain lost market share. And in order to do this, they have simply tried to imitate R. H. Macy. Macy has been the most successful of the department store companies in terms of gaining market share and they went at it by putting more stress on inventories and promotions."

Thomas Tashjian, an analyst with Prudential-Bache Securities, notes, though, that Macy's is now running its year-to-year inventory gains more in line with anticipated sales gains. To intentionally stock heavy inventories "had been Macy's strategy during the time frame when we were looking at good, to even great, G.N.P. growth," he says.

To be sure, those two areas, promotions and inventories, are key to Federated's new strategy. However, Matthews emphasizes that "It is our own strategy, developed out of our own view of our position in the industry. It takes cognizance of what is happening in many areas of the industry and I certainly wouldn't characterize it as Macy's strategy."

Filene's Basement has done well so far, according to Matthews, especially on Long Island.



Regardless of terminology, Federated's strategy is not only being pitted against Macy's in Atlanta, but in an increasing number of other markets as well, among them Houston (Foley's) and Florida (Burdine's). And, while no one knows for sure, the feeling is that the new strategy is working.

Witness Macy's New York entry into Florida at the Aventura Mall. The newcomer was greeted by a chainwide aggressive promotional push from market leader Burdine's.

With this campaign, observers say, Federated sought to accomplish two objectives: boost market share along with giving Macy's a run for its money. The feeling is that it's worked; the impact of Macy's on Burdine's, sources believe, has been minimal.

While it's acknowledged that Federated's new policies put it in the right direction, they are also cited as the cause for earnings declines in the first three quarters of 1984. The timing of the new inventory and promotional strategies couldn't have been worse, sources say.

Most retailers started out the year expecting another year of strong sales gains and planned inventories accordingly. An unanticipated slowdown in consumer spending followed, and in order to move goods retailers were forced into "promotional madness," says Ruchlamer. Federated's strategy for gaining market share became the strategy for survival for all retailers in 1984.

The company's efforts were canceled out and its problems exacerbated by a commitment to deepen inventories that were destined not to move. "The environment," admits Matthews, "certainly made the implementation of the strategy more difficult."

Tashjian, however, sees the environment changing this year. Like Macy's, he reports, most department

After being plagued by instability, Gold Circle is currently under sound management.

stores will be matching inventory increases to anticipated sales increases. Federated, on the other hand, "seems dedicated to the strategy of a higher inventory per square foot.

"Going along with that strategy," he continues, "as the other companies tighten their inventories so they're running in tandem with their sales increases, Federated will be the one that's offering the better depth of selection . . . and will remain full on their inventories—which would cause possibly more interest expense to finance the inventories but may also beef up their market share."

Goldfeder has acknowledged last year's difficulties and cited some other negative effects of the new strategies as well:

- A switch from a profit sharing to a pension plan took its toll on the first three quarters' earnings. This, however, was expected to be offset in the fourth quarter.
- Start-up expenses for MainStreet ate their piece of the bottom line.
- The expansion and repositioning of Ralphs, the southern California supermarket chain, severely impacted the first two quarters.
- At the same time, said Goldfeder, it was necessary to communicate these new strategies with increased advertising.

Unfortunately, 1984 never brought with it the added sales to offset these expenses. But the feeling at Federated, as well as on Wall Street, is that 1985 will.

". . . earnings should be a rising trend through most of 1985 because of easier comparisons," reports Edelman. "With most disappointments likely to be past, we believe the stock offers value and is attractive."

The new inventory strategy coupled with renovated and new stores (another hefty investment expected to pay off this year) should provide Federated's department stores with the edge to win greater market share.

Other positive developments include Bloomingdale's national expansion, viewed as a sure success based on the recognition the chain had already acquired through its catalog operation. Washington D.C., Boston, Philadelphia, Dallas and Miami have already seen its entry, with other markets, including Chicago, yet to come.

Abraham and Straus, Federated's Brooklyn, N.Y.-based division, appears to be in a strong position, having ended fiscal 1984 with its third consecutive year of sales and earnings gains.

Federated's strategy for gaining market share became the strategy for survival for all retailers

The outlook for MainStreet, the new division aimed at the middle market, isn't as clear. However, Matthews reports, "We are very pleased with the introduction and are aggressively expanding MainStreet. At this point, we will be opening another half dozen stores again this year."

According to a report from Management Horizons, Columbus, Ohio, "MainStreet represents an innovation of importance beyond its opening three [Chicago] locations." For Federated, the report says, this new business represents not only "a major new venture step forward for Federated, and "a major new entry into one of the largest retail markets in North America," but also, among other things:

- The first "from the ground up" business designed exclusively and expressly for the apparel and soft home needs of the middle income market.
- The first large corporate entry to counterbalance the rapid growth of Dayton Hudson's Mervyn's.

The 70,000-sq.-ft. stores are reportedly expected to generate sales of $200 per square foot.

Filene's Basement, spun off from the Filene's division in early 1984, is another area where the jury is still out. Yet, according to Matthews, so far it has done very well, particularly on Long Island. Expansion possibilities are being examined, he reports. While not yet one of Federated's largest divisions, the corporation is actively expanding The Children's Place which, along with The Children's Outlet, was acquired in 1982. This division ended 1984 with 138 stores, 24 more than in 1983. Matthews expects the number will total 300 by the end of the decade. Sales for the division for 1983 totaled $103.3 million, according to Buchlamer. "If you triple that by the end of the decade to correspond with the increase in stores," she points out, "that's $300 million"—as much as Filene's or more than I. Magnin.

This division, says Tashjian, "is most definitely a niche filler of the future and we see it's going to be a prime competitor in the children's market. It's one of the right concepts and that's why they acquired it."

However, in the discount area the success of the company's discount divisions has bounced back and forth between Gold Circle and Richway in recent years.

Nineteen eighty-three was Richway's year for profits, and says Buchlamer, a turnaround year. The year prior, earnings were depressed by seven new store openings and a new distribution center. Five or more stores will open this year.

Gold Circle, according to Matthews, had been plagued by management instability. "I had been the store principal for a number of years and when I came to Federated, it took us some time to find a replacement," he reports. "Then that replacement [Leonard Williams] left after 18 months or so, largely because of location difficulties. That makes it more difficult to have continuity in terms of strategy and implementation."

Now, says Matthews, sound strategies and competent organization are in place at both divisions.

All this bodes well for Federated's future. People active in the retailing industry, as well as observers of it, have a great deal of confidence in the company's strategies. "If Federated made up their mind to do anything, they wouldn't have a fighting chance. They would win hands down," says one competitor. "They're that professional." It's a sentiment shared by many. ■

—Holly Klokis

CIRCLE NUMBER 100 ON READER SERVICE CARD ▶

tions manager, who has not been replaced. "If it's administered," Wamboldt says, "I think it's an excellent idea"—for companies big enough to recoup at least $1,000 a month on their voice costs.

The availability of sophisticated SMDR outfits at all price levels should make it more palatable to businesses.

Control Key of Salem, Mass., and Digital Interface Systems of Benton Harbor, Mich., among numerous vendors, market SMDR packages for less than $7,000. Control Key, for instance, offers two "call accounting units" suitable for use by retailers: at $6,500, the FM 5000, capable of handling 1,000 stations and 250 trunks, and the $4,500 FM 5000E, sufficient for 60 stations and 40 trunks.

A common SMDR unit consists of a dedicated microcomputer, a printer and a replaceable AT&T rate cartridge, and can be programmed in-house to track calls on WATS, tie lines and other usage. Once plugged into the PBX, the typical unit will generate reports on the most frequently dialed numbers (often a sports or "sex" line) and excessive long-distance calls, to detect the sources of abuse. Network optimization reports indicate the frequency, duration and cost of calls by area code and, separately, on the firm's private lines, if it has any. "It's the basic information you need to design a network optimally," says Control Key marketing manager Todd Meyer.

With SMDR, further long distance savings are possible by enabling on-the-road employees to tap the firm's network with an authorization code, as an alternative to credit card or collect calling. Going one step further, long distance privileges can be offered as an executive benefit.

And then there is reselling.

The concept is hardly new. Both Sears, which last year formed the Sears Communications subsidiary, and Penney have begun offering usage of their elaborate countrywide networks to other corporations.

For companies lacking great technical capability and expertise, there is a humbler approach. Rosen proposes that, with SMDR and authorization codes, many chains can subsidize their phone systems by reselling long distance capacity to employees. If a company charges rates above its own cost but lower than what employees ordinarily pay, he says, both parties benefit; the charges could even be deducted directly from the staffers' paychecks.

Although Rosen could name no retailers currently engaged in the practice, he insists it's easily done. "If some of these companies understood their systems' capabilities better, then telecommunications could become a profit center rather than an expense center," he says. "They just have to be made aware of it."

Ward's Heatherly puts a more radical strategy on the table: reselling long distance service to the general public for profit.

"The possibility exists for any business that has a large customer base to utilize spare capacity and resell it to their customers," he observes. "The big retailers are in a better position from a customer standpoint to do this than other businesses." Heatherly would "neither confirm nor deny" that Ward is weighing such an entry into the ranks of the common carriers.

ADG's Jones, who asserts that telecommunications "is not our business," sneers at the suggestion of reselling. Due to the field's instability, offering employees a perk could lead to ill will if that perk had to be withdrawn, he says. Moreover, "I would never recommend violating our customer base by offering these services."

In any case, it already appears that there is little room left for retailers to win at the long distance game. "If you don't do it in this decade, you'll have missed the boat," Heatherly says.

Thus, success entails acting quickly—at a time when, as everyone knows, acting too quickly can be a treacherous affair. ■

DATA PROCESSING

Spending up despite shrinking labor costs

MIS systems slated for development or improvement in next two years

System	Mass merchandisers	Department stores	Specialty stores	Combination/ grocery stores	All respondents
Inventory control	50%	54%	53%	33%	50%
Stock replenishment	53	73	44	13	50
Point-of-sale	50	39	53	47	48
Purchase order management	50	58	47	27	48
In-store	58	15	41	60	43
Distribution	29	27	56	20	35

Source: Arthur Young

If it seems like retailers are spending more money on technology these days, that's because they are.

Expenditures for MIS (management information services) in the retail community jumped substantially in 1984, according to a new study by Arthur Young, the accounting and consulting firm.

According to Al McCready, national director of retail consulting for Arthur Young, data processing costs for retailers who participated in the study amounted to $652 million last year, or 0.92% of their aggregate annual sales. That's an 18% increase over the amount they spent on data processing in 1982—and significantly more than their 16% increase in sales.

The study encompassed 111 respondents across virtually all categories of retailing—mass merchandisers, department stores, grocery or combination store chains and specialty store chains. Together, those surveyed accounted for more than $70 million in retail sales in 1984.

"The retail industry has radically changed from three years ago with respect to management information systems," attests McCready—who reports that the increase in spending for store-level systems and microcomputers has risen even faster than overall MIS budgets. Why? Because there has been a gradual shift toward lower MIS personnel costs, he says.

The study backs up that thesis, revealing a significant drop in the amount that retailers are budgeting for payroll: 0.39% of sales in 1983, as compared with 0.52% of sales in 1982.

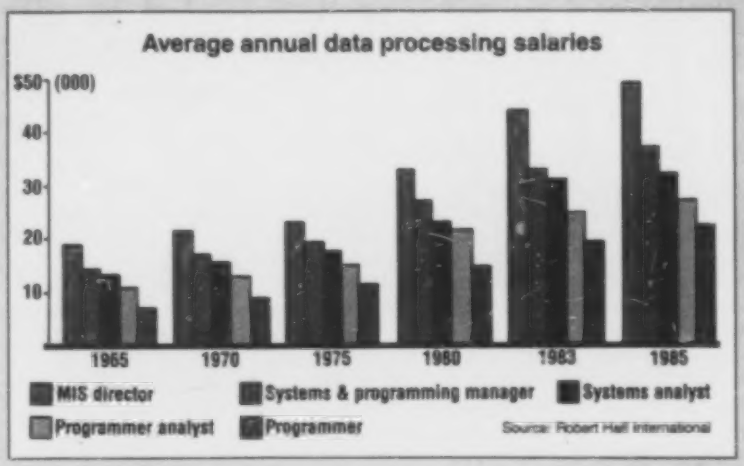
EDP personnel getting more expensive

While personnel budgets for data processing may be diminishing in retail companies *(see accompanying story)*, the cost of each data processing employee is on the upswing. That's the finding of a recent survey conducted by Robert Half International, the worldwide executive recruitment firm.

The study covers the major data processing categories, including: programmers, project managers, systems analysts, data base administrators, EDP auditors, management information systems directors, programmer analysts and computer operators.

According to Robert Half, principal in the organization, data processing starting salaries are up an average of 5.9% over a year ago. Half notes that there is a certain amount of regional variation in the survey findings, however. For example, starting salaries in California, Nevada and Connecticut are 5% higher than the national average, while they are 9% to 10% lower in Maine, New Mexico, Florida and West Virginia. The extreme variations were in the 49th and 50th states: in Alaska, starting salaries were 18% higher than the national average, while in Hawaii they were 15% lower.

Some highlights from the salary study:



- Managers at large installations (over 50 data processing employees) can expect to find starting salaries in the $36,000 to $45,000 range—up 9.5% over 1984 levels;
- Programmers at medium-sized installations (15 to 49 employees) will find salaries in the $20,000 to $25,000 range—a 7.1% gain over the year before;
- Large installations are offering directors of management information systems starting salaries ranging from $54,000 to $75,500 (up 5.3% over the year before);
- Computer operators at medium-sized installations can anticipate starting salaries in the $16,000 to $20,000 range, or an average of 5.9% more than they could the previous year;
- Project managers at small installations (fewer than 15 employees) will find starting salaries in the $25,500 to $33,000 range—a 6.4% increase year-to-year.

According to Half, the size of the installation is a major factor in the degree of compensation for a given position. Also, individual data processing personnel are actually enjoying greater salary advancement than the figures suggest, since the figures do not reflect promotions to higher levels of responsibility.

"The survey suggests that as the technology used in capturing data has become more sophisticated and more widely used by retailers," says McCready, "fewer people have been hired for traditional data entry work. Computers now can handle functions such as looking up and recording the price of merchandise, and can prompt the employee who is performing more complicated functions—all of which greatly increases productivity in retail stores."

One retailer who concurred with the Arthur Young study's findings cited another reason for lower personnel costs: the recent spate of packaged software created especially for the retail end-user. With more and more packages available, needing only small modifications to fit a given retail operation, development costs have become less of a burden. That has freed up funds that could be invested in systems and in hardware.

Among all the various MIS applications, point-of-sale (POS) technology is still one of the most popular, says McCready. About 47% of the retailers surveyed were currently completing either the initial development of a POS installation or an enhancement of an existing POS system.

Store-level systems—computers operating in the stores themselves rather than in headquarters or a central location—had been developed by 47% of the mass merchandisers, and another 58% said that they were planning to install or improve such systems in the next two years. Overall, 43% of those surveyed said that they would implement or build up store-level systems by 1987.

At the same time, sales reporting/analysis systems had been developed by 46% of the department stores participating in the study.

"Each of the different types of stores, of course, has a different set of MIS needs," says McCready. "Mass merchandisers very much need computers to help track high transaction volumes, while department and specialty stores often need specialized reporting on fashion apparel."

The survey also reveals a move toward the development of inventory control and stock replenishment systems. Some 50% of those queried indicated that they had plans to implement such systems in the course of the next two years—led by the department store sector, where 73% said they would install stock replenishment systems and 54% said they would install inventory control systems.

Retailers are also giving a high priority to POS and purchase order management (POM) systems: 48% said that they were planning development or improvements in these areas. When it came to purchase order management, the department stores were

Microcomputer use in retailing

Applications	Mass merchandisers	Department stores	Specialty stores	Combination/ grocery stores	All respondents
Financial planning	47%	47%	56%	50%	50%
Sales reporting	26	0	19	33	20
In-store inventory control	15	5	4	25	13
Payroll	5	0	15	25	10
Point-of-sale	0	5	4	17	8
	0	0	4	8	3

Source: Arthur Young

again the most aggressive (58% said that they would invest in such systems in the next two years), while specialty stores were most interested in POS (53% said that they'd invest in point-of-sale systems).

Additionally, 35% of all respondents said that they would implement distribution systems over the next couple of years. Those slated to be most active in this respect are the specialty store operators, with 56% replying in the affirmative; those slated to be least active are the food and combo store operators, with only 20% planning to implement new distribution systems.

The study also showed that retailers continue to be attracted to the relative low cost, versatility, interactive capabilities and ease of use associated with microcomputers. The respondents reported that they had an average of about 50 micros operating in each of their organizations.

Many of those surveyed (some 50%) said that they used micros primarily for financial planning. Specialty stores used micros this way most often (56%), while mass merchandisers and department stores made the least use of micros for financial planning (47%).

Microcomputers are also being used increasingly for sales reporting and analysis, especially by grocery and combination stores (33%) and mass merchandise chains (26%). Some 19% of the specialty store respondents said that they used micros this way, but none of the department store operations did—since they needed larger processors to produce their more complex reports. In general, 20% of all respondents said that they used micros for sales reports and analysis.

But those figures may go up in the near future, as about three fourths of those surveyed said that they are including micros in their overall MIS plans. "This reflects the growing appreciation of micros as a decision-support tool for such activities as sales projections; for financial budgets, and for production applications ranging from tracking bridal registries to producing 'rain checks,'" says McCready.

Significantly, a large number of those surveyed said that they're integrating MIS development into their formal business strategies. Some 80% say that they have an annual written plan for MIS activity. And 71% of the respondents reported that they have established data processing steering committees in their companies, both to coordinate MIS with corporate strategy and to disseminate MIS data to other areas. ■

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April 1985

Mervyn's Kilmartin:

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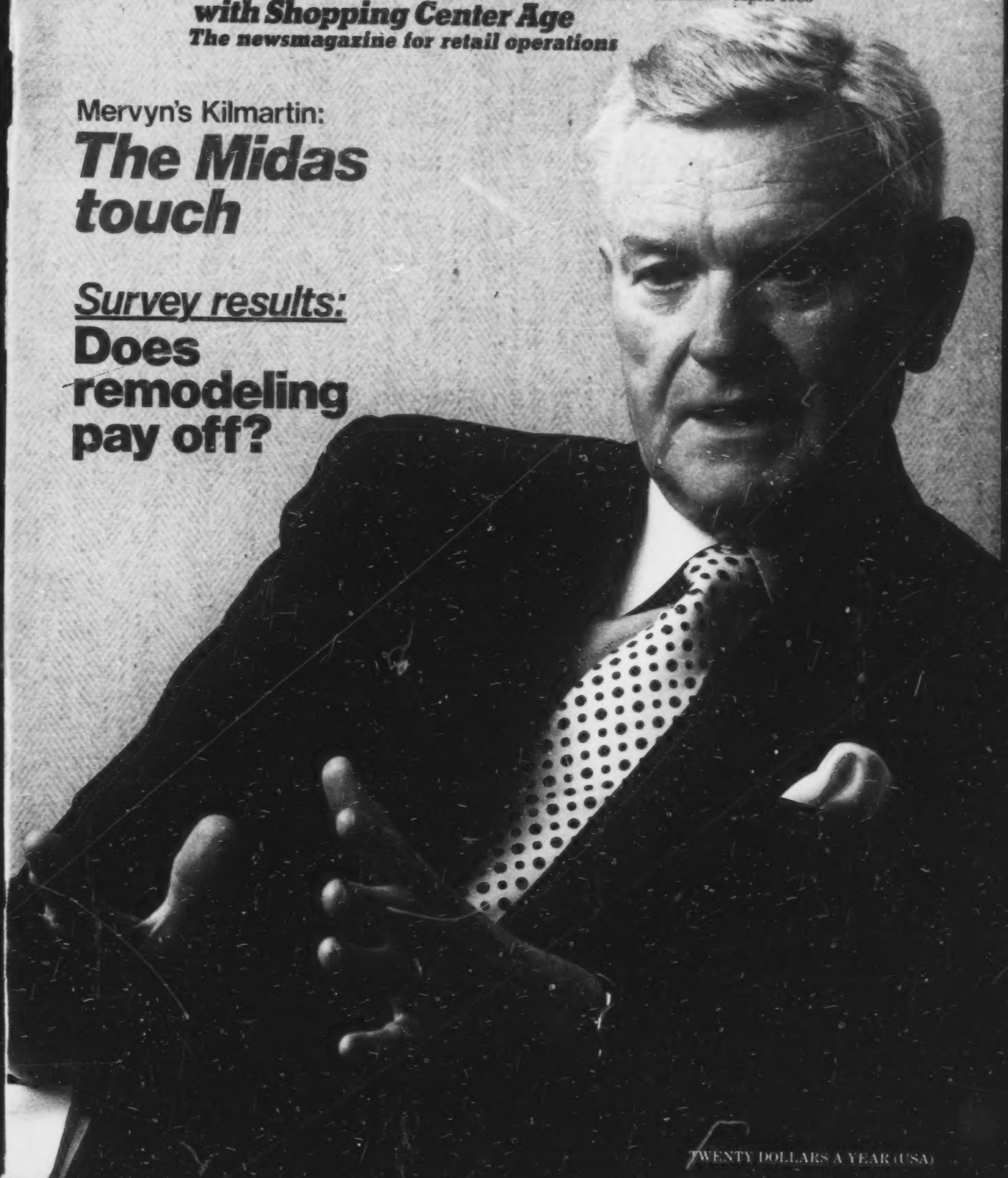
Survey results:

Does remodeling pay off?



TWENTY DOLLARS A YEAR (USA)

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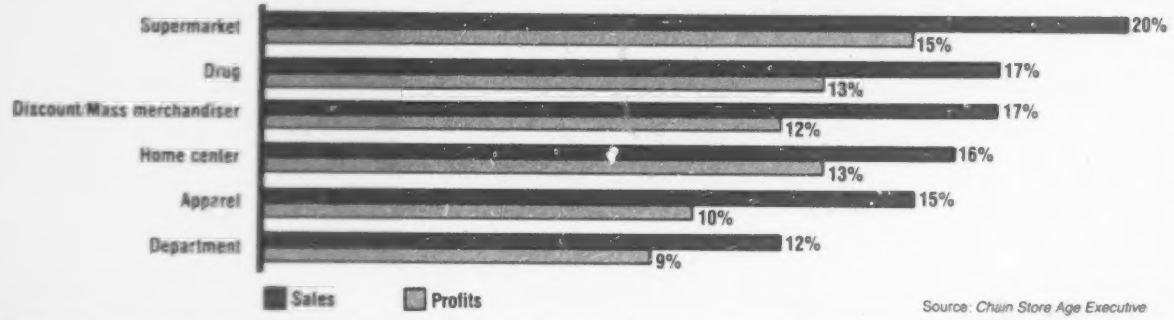
Chain Store Age EXECUTIVE April 1985

REMODELING SURVEY

Average per cent increase following remodeling—1984



Source: *Chain Store Age Executive*

Remodeling pays off in higher profits

In *Chain Store Age Executive*'s survey, chains report an average earnings increase of 17% per square foot

There is a question in the minds of store planners and designers as to whether store remodeling is as necessary an ingredient in maintaining market share as ordinary low prices.

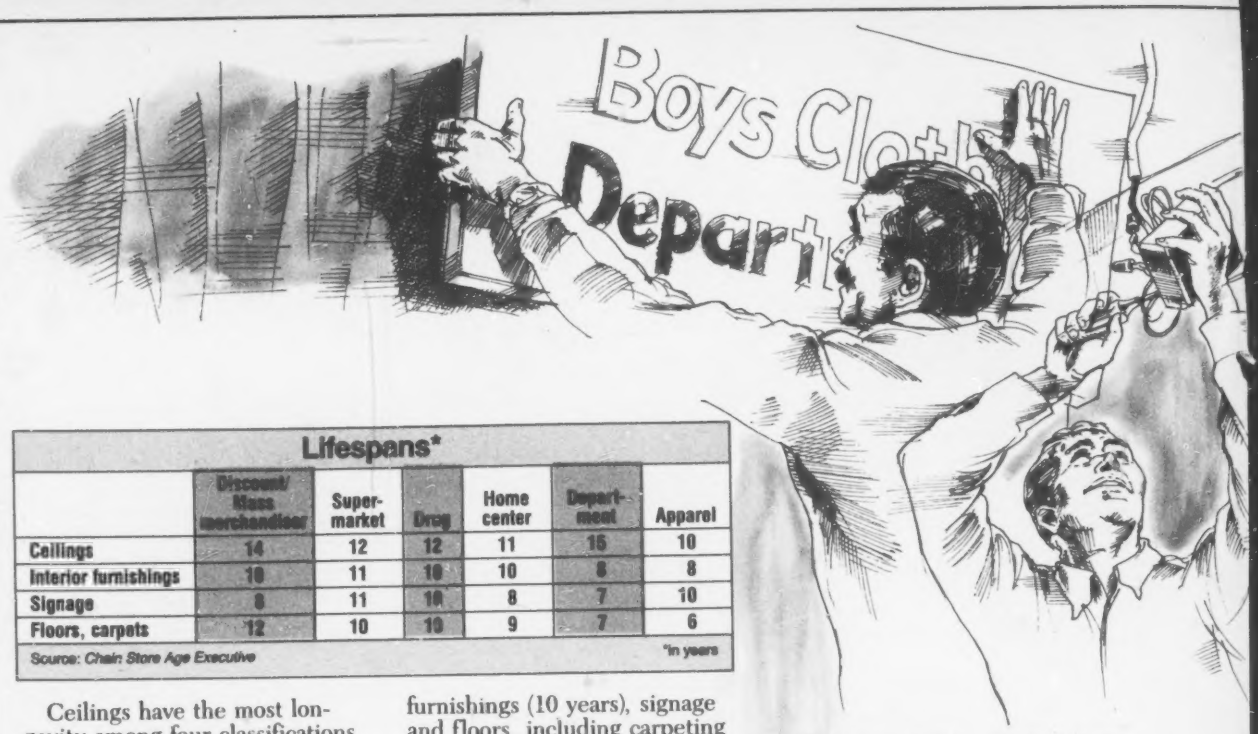
An exclusive survey by *Chain Store Age Executive* of 180 chains representing a cross section of discount/mass merchandisers, department, supermarket, drug, apparel specialty and home center stores disclosed that 87% of the respondents "agreed strongly/somewhat" with the premise that "distinct decor enhances a store's image and builds traffic."

However, the importance of esthetic appeal was questioned by 49% of all respondents who agreed that "consumers today would rather shop at stores featuring less ambience and lower prices than expensively-decorated, higher-priced stores."

Despite this attitude, the survey shows that sales and profits do increase after a remodel project and that the number of remodels in 1985 will increase over 1984 and projections are for further increases in 1986.

The survey also disclosed that:

- Supermarkets spent the most on remodeling ($24 a square foot) of all categories, and got the highest profit increase after remodeling ($15 a square foot).
- Prospects for tangible business gains, as reflected by sales and market share growth, are the dominant motivators for chain remodeling.
- There is widespread rejection (88%) of the premise that "store remodeling is expensive and doesn't increase business appreciably."
- Other than performance results, customer base expansion and decor and facility revitalization are prominently mentioned as being most influential in the remodeling decision.
- More than half (54%) of respondents generally conduct consumer research, mostly through an internal department, prior to remodeling.
- Remodeling activity will be pervasive this year, with a small accompanying increase in the projected average number of remodeled units.
- Compared with 1985, remodeling activity in 1986 will be marked by reductions in both the number of chains undertaking remodeling projects and in the average number of units target-



Lifespans*

	Discount/ Mass merchandiser	Super-market	Drug	Home center	Depart-ment	Apparel
Ceilings	14	12	12	11	15	10
Interior furnishings	10	11	10	10	8	8
Signage	8	11	10	8	7	10
Floors, carpets	12	10	10	9	7	6

Source: *Chain Store Age Executive* *in years

Ceilings have the most longevity among four classifications of structural components and fixtures in retail stores, according to *Chain Store Age Executive*'s survey on remodeling.

Ceilings last an average of 12 years before remodeling or replacement is needed. Replacement intervals for the other three components are: interior furnishings (10 years), signage and floors, including carpeting (nine years each).

The disparity in average lifespans between ceilings and other interior elements may be understated. A relatively large proportion of chains were unable to quantify a lifespan estimate for ceilings, maintaining that replacement hasn't been made in their experience, nor was it anticipated.

In general, fixture and furnishings replacement was somewhat less frequent in discount/mass merchandise, supermarket and drug chains than at home centers, department and apparel specialty stores.

ed for renovation.

- The majority (68%) of chains complete remodeling of a store all at once, rather than in phases over time.
- Of the various structural components and fixtures investigated, ceilings have the longest lifespan, lasting an average of 12 years before remodeling or replacement is required; a nine to 10-year average lifespan is characteristic of interior furnishings, floors, carpets and signage (*see accompanying story and chart*).
- The average chain remodeled 21% of its total stores in 1984.

Not surprisingly, given their fashion orientation and less utilitarian appearance, apparel and department stores were more likely than other trade classes to stress the importance of image and ambience on consumer shopping behavior.

A total of 77% of the apparel and 63% of the department stores agreed strongly that "distinctive decor enhances a store's image and builds traffic."

On the other hand, 63% of the discount/mass merchandisers, 70% of home centers, 57% of drug chains, and 50% of the supermarkets "agreed strongly/somewhat" with the statement that "Consumers today would rather shop at stores featuring less ambience and lower prices than expensively decorated, higher-priced stores." Only 23% of the department stores and 30% of apparel stores went along with that thinking.

Respondent profile

	Average annual dollar volume (000)	Average number of units
Supermarket	$1,857,000	451
Discount/Mass merchandiser	549,000	90
Drug	341,000	181
Department	300,000	17
Apparel	207,000	401
Home center	150,000	49

Source: *Chain Store Age Executive*

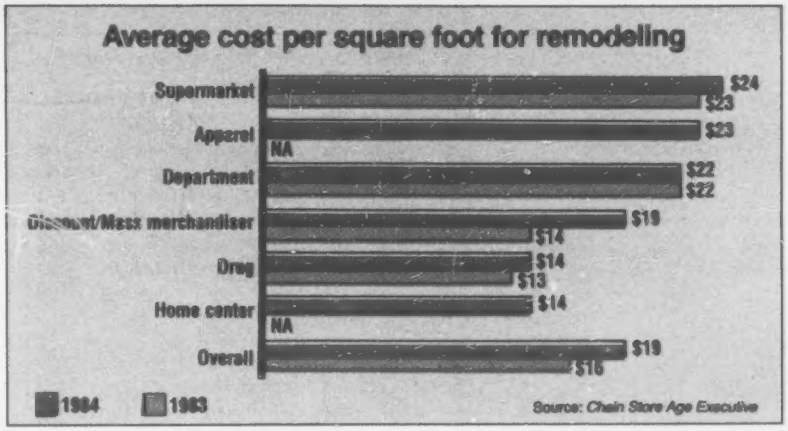
Most designers and planners agreed that remodeling is worthwhile in terms of increased business. In fact, only a mere 6% of all respondents "agreed strongly/somewhat" that "store remodeling is expensive and does not increase business appreciably."

Apparel specialty stores report the highest average number of remodeled stores among the six trade classifications, redoing an average of 39 stores, followed by discount/mass merchandisers (15), supermarkets (14), drug stores (13), home centers (9) and department stores (3).

However, as a percentage of total chain units remodeled, discount/mass merchandisers lead with 37%, followed by drug stores and home centers (23% each), department stores (17%), apparel (16%) and supermarkets (11%).

Although the survey discloses that remodeling projects will be undertaken by fewer chains in 1986, it points out that department stores and supermarket chains are most likely to remodel next year. In fact, significantly higher proportions of department store chains (83%) and supermarket chains (80%) than home centers (57%) and discount/mass merchandisers (53%) expect to remodel at least one store in 1986.

Renovations in 1986 will be curtailed most dramatically by home centers (cutting from an average 12 units remodeled this year to five in 1986) and discount/mass merchandisers (declining from 16 to 10 units).



Overall, chains spent an average of $19 a square foot on remodeling in 1984, compared with $16.83 in 1983.

The following are average square footage costs of remodeling by category in 1984 with the 1983 costs in parentheses: supermarkets, $24 ($23); apparel, $23 (not surveyed last year); department stores, $22 ($22); discount/mass merchandisers, $19 ($14); drug stores, $14 ($14), and home centers, $14 (not surveyed last year).

At the low end of the expenditure spectrum, 57% of drug chains spent $10 or less per square foot on remodeling, compared with 53% for home centers, 40% for discount/mass merchandisers, 13% for department stores and 7% each for supermarket and apparel chains.

Also, as noted, 16% of the chains realized a 16% sales increase after remodeling activity. Supermarket remodeling projects were most productive, generating an average sales increase of 20%. Incremental supermarket sales, however, weren't achieved without cost.

As mentioned previously, supermarkets incurred the highest remodeling costs ($24 a square foot) of the six surveyed categories.

Other average sales increases after remodeling included discount/mass merchandisers and drug chains (17% each), home centers (16%), apparel (15%) and department stores (12%).

Four out of five (80%) of the chains experienced an increase in profits per square foot after remodeling.

Supermarkets also had the highest increase in profits, attaining an increment of 15%. This was followed by drug and home centers (13% each), discount/mass merchandisers (12%), apparel chains (10%) and department stores (9%).

The impact of an on-going renovation on business varies substantially, the survey discloses. The remodeling process is more likely to stimulate sales in discount/mass merchandiser, department and supermarket chains while impairing business in apparel and drug chains.

The survey shows that 43% of discount/mass merchandisers, 40% of department stores and 33% of supermarkets reported business increases while renovating was taking place. At the same time, the proportion of chains experiencing business declines during renovations was 40% reported by apparel stores, 30% by drug chains, 23% each by home centers and discount/mass merchandisers, 20% by department stores and 17% by supermarkets.

When asked to explain why they remodeled, 52% of the executives surveyed cite store or facility aging as a prime reason. This was followed by "current, potential sales performance," at 28% and 21% cite "market conditions, potential demographic trends."

Other factors include competition (10%), condition of store facilities/maintenance (16%), enhancing the merchandise presentation or introducing merchandise (16%), potential profitability and/or return on investment (12%) and improving the visual, esthetic appeal, or need for a facelift (11%).

Supermarkets are more apt to evaluate sales performance and competitive activity when contemplating remodeling than are the other categories. Department stores cite greater emphasis on merchandising opportunities, departmental space allocations and profit potential. Discount/mass merchandiser remodeling efforts more frequently originate as a response to competitive activity and merchandise opportunities.

The chains were then asked to assess the relative importance of seven factors in their decision to remodel. Predominant among their answers were tangible barometers of chain performance, sales and market share. A total of 94% say that one of the reasons is the potential of increasing sales and 78% mention the potential of increasing market share.

Prospects for customer base expansion and decor and facility revitalization are also mentioned as important or very important by more than 50% of all the chains. Of these, 66% mention the potential of attracting a broader customer base, 57% cite creating a new look and 54% say aging of existing facilities. Only 38% say remodeling by competition is an important factor and 21% mention remodeling of a shopping center.

When it comes to conducting market research and soliciting consumer feedback, supermarkets and department stores are the highest with 70% and 67% respectively. These are followed by discount/mass merchandisers (60%), home centers (57%), apparel stores (37%) and drug chains (30%).

Chain remodeling projects averaged 34,000 sq. ft. in 1984. Department store renovations were most expansive, covering 82,000 sq. ft. on average. Discount/mass merchandiser remodeling efforts averaged 51,000 sq. ft., followed by supermarkets (26,000 sq. ft.), home centers (24,000 sq. ft.), drug chains (12,000 sq. ft.) and apparel stores (10,000 sq. ft.). ■

Chains optimistic about 1985 despite disappointing quarter

Sales and earnings for quarter ended in November, December and January

Chain	1984 sales (millions)	1983 sales (millions)	% change	1984 EPS	1983 EPS	% change
General Merchandise						
Sears[1]	$8,182	$7,945	3.0	—	—	—
Penney	4,430	4,170	6.3	$2.89	$3.47	(16.6)
Wal-Mart	2,074	1,547	34.0	0.77	0.59	30.5
Macy	1,456	1,308	8.9	1.98	1.93	2.6
Zayre	1,019	862	18.2	1.72	1.41	22.6
Supermarket and convenience stores						
Safeway	6,130	5,778	6.1	1.29	1.30	—
Kroger	3,870	3,778	2.4	1.25	0.93	34.4
Southland	3,127	2,719	15.0	0.65	0.64	1.5
Lucky	2,617	2,324	12.6	0.71	0.76	(6.6)
Winn-Dixie	2,349	2,204	6.6	0.73	0.86	(15.1)
A&P	1,366	1,206	13.3	0.71	0.24	195.8
Albertsons	1,244	1,146	8.5	0.75	0.70	7.1
Stop & Shop	945	801	18.1	2.25	2.14	5.1
Drug chains						
Revco	1,037	934	11.1	0.70	0.94	(25.5)
Jack Eckerd	889	777	14.4	1.10	1.02	7.8
Walgreen	715	613	16.7	0.51	0.41	24.3
Longs	417	350	19.1	1.20	1.07	12.1
Perry	121	96	25.7	0.54	0.53	0.8

( )decrease
[1]Sears Merchandise Group only. Operating earnings from this group amounted to $446.5 million, or a 3.1% decrease from the $460.9 million a year earlier.
Source: *Chain Store Age Executive.*

Excessive inventories and the drive to maintain market share by heavy price-slashing contributed to a disappointing fourth quarter for retailing in 1984.

But gross national product (GNP) grew by 4.9% in the same quarter and indications are that the economy will strengthen further this year. Many retailers and Wall Street analysts are projecting that retailing's sales and earnings will improve along with the general situation.

William Bass, chairman of Sears, Roebuck's Merchandise Group, for instance, is projecting a 6% to 7% sales increase in general merchandise this year over that of 1984 (*Chain Store Age Executive*, March 1985).

Dean Witter Reynolds' consumer spending model projects a general merchandise sales increase of 8% and 4.5% in units this year, and 6.3% and 2.3%, respectively, in 1986.

Some retail executives attending a recent symposium by Oppenheimer & Co. noted that they are a little concerned with the second half of this year. "The year looks pretty good for us," says Herbert Fisher, chairman and ceo of Jamesway, a discount chain. The last six months, he adds, might be of concern, mostly because of the calendar. There are six fewer shopping days between Thanksgiving and Christmas in 1985.

Malcolm L. Sherman, president, Zayre, notes that he hadn't seen anything that would indicate a difficult first half. It may not be a "great" first half, but it will be O.K., he says. About the second half, he says he isn't concerned about the number of days between Thanksgiving and Christmas. People always manage to shop for that season—earlier or later.

Sherman predicts that, given a reasonable economy, it has to be a "sensational" Christmas. Reason? Retailing hasn't had two mediocre Christmases in a row.

In order to help improve profits during the year, most retailers are looking to cut costs anywhere they see a budget. This applies to excessive clearance markdowns, related payroll expenses and new advertising costs.

Another area of cost cutting is in store expansion and remodeling. The buzzwords, says Dominick Segrete, a principal with the design firm of Tucci, Segrete & Rosen, are "challenge budget." This means that in prior times if a project went over budget by a few bucks, it was no big deal. Today, however, if a project has a budget of $4 million, the challenge is to come in below that amount by about $250,000 without cutting back on quality of materials.

In short, says Segrete, it's a sellers' market out there.

Although many retailers and analysts complain that the fiscal quarter of 1984 which ended between Nov. 30 and Jan. 31 was disappointing, it wasn't universally bad. At presstime, although final figures weren't available, indications were that chains such as Zayre, Allied Stores, Wal-Mart, The Limited, Kroger, Walgreens and A&P all had decent sales and earnings increases.

But for many retailers a fast-starting 1984 collapsed in the last part of the year. This resulted from the warm weather, plus pressures to increase productivity and market share, all of which resulted in unusual amounts of price slashing. K mart's chairman and ceo, Bernard M. Fauber, explains that "An industrywide overstocked condition created massive clearance sales throughout the entire country. Our own aggressive inventory reduction and promotional programs resulted in much heavier markdowns than expected."

Fauber explains that K mart's new merchandising programs require that many slow-moving items be dropped from the assortment. A decision was made to clear these items from the inventory in 1984 and not burden the stores with them in 1985. "While it was costly in the fourth quarter, it does free up the stores' open-to-buy in early 1985. Preliminary information indicates current inventory levels are near plan."

Commenting on J. C. Penney's 16.6% earnings decline in its fourth quarter ended Jan. 26, William R. Howell, chairman, notes that gross margin as a per cent of sales declined in the quarter and the year due to heavy markdowns. The markdowns were the sharpest in the final quarter when the anticipated surge in seasonal demand didn't materialize.

Penney's inventories at year-end were about 10% over plan, but are targeted to be in line with plan by the end of the first quarter.

Bernard Sosnick, analyst for L. F. Rothschild, Unterberg, Towbin, says that not only the excessive inventory buildup, but pressures on department stores by upgraded mass merchandisers and off-price retailers, contributed to excessive markdowns. ■